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The Honorable

The Secretary of the Treasury

My dear Mr. Secretary:

Reference is made to your letter dated January 13, 1949, in which you request a decision as to whether this Office would object to the Bureau of Federal Supply entering into an agreement with Babcock and Wilcox Tube Company, Inc., and Gasoline Products Company, Inc., which would provide for the payment by Babcock and Wilcox Tool Company to Gasoline Products Company the sum of \$42,499.66, collected from the Bureau of Federal Supply as a part of the royalty provided for in certain contracts between that Bureau and Babcock and Wilcox Tube Company, and the release, in consideration of such payments, of Babcock and Wilcox Tube Company and the Bureau of Federal Supply from further claim for royalty payments by Gasoline Products Company, which alleges to be the authorized licensor under the patent involved.

The facts outlined in your letter of January 13, as supplemented in informal discussions with personnel of your Department, are as follows:

In the years 1942-1944, four contracts, Nos. DA-Tps-5819, DA-Tps-12912, DA-Tps-33288 and DA-Tps-63248, were entered into between the Procurement Division, Treasury Department, now Bureau

of Federal Supply, and Babcock and Wilcox Tube Company for the purchase from that company of certain quantities of hot rolled seamless steel tubes for shipment to Russia, under Lend-Lease. It is understood that each of the contracts provided that the contract price should be "Plus Dixon Patent Royalty of \$10.00 per net ton net, if applicable, for the account of the Gasoline Products Company." In accordance with these provisions, Babcock and Wilcox Tube Company collected royalties from the Bureau of Federal Supply in the amount of \$42,499.66 but, apparently due to certain doubts as to the validity of the patent involved, paid no part of said sum to Gasoline Products Company. In the course of a reaudit conducted by the Bureau of Federal Supply, the propriety of the royalty payments was challenged and, thereafter, the Bureau refused to make further royalty payments and demanded the refund of payments previously made. Babcock and Wilcox Tube Company, while willing to refund the royalty payments theretofore received, is unwilling to make such refund until the Bureau of Federal Supply executes a release and indemnification agreement to protect it, Babcock and Wilcox Tube Company, from further liability in the matter. This agreement has not been executed. It appears that, after the payment of further royalties was suspended, approximately 1,513 1/3 tons of tubing were purchased under the contracts involved. As outlined above, the agreement now proposed—which is understood has not been reduced to writing—contemplates the payment to Gasoline Products Company of royalties in the sum of

\$42,499.66, now being held by Babcock and Wilcox Tube Company, and the waiver by Gasoline Products Company of further claim for uncollected payments of \$15,433.97 involved in the purchases made after royalty payments were suspended.

The record indicates that the Dixon patent, U. S. Letters Patent No. 1,950,786, dated April 13, 1934, was issued to the Texas Company but that, by reason of contracts between that company and Gasoline Products Company, the latter claims the right to grant licenses thereunder; that various manufacturers of chrome steel tubing, including Babcock and Wilcox Tube Company, were authorized by Gasoline Products Company to manufacture tubing of the type covered by the Dixon patent, provided they collected a royalty of one cent per pound (subsequently reduced to one-half cent per pound) on tubing produced for foreign use from such purchasers of said tubing as are not licensed under the Dixon patent; and that this authority in Babcock and Wilcox Tube Company, while not in the form of a formal agreement, has been recognized since 1934, as is evidenced by the fact that Babcock and Wilcox Tube Company consistently has collected the royalty at the rate of one cent or one-half cent per pound from its unlicensed customers.

It appears clear that, under the contract provisions quoted above, the liability of the Government for the payment of the Dixon patent royalty is dependent upon the applicability of the royalty

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to the purchases involved. Such applicability, in turn, appears to be dependant upon the validity of the patent and the binding effect of the agreement between Babcock and Wilcox Tube Company and Gasoline Products Company. If the patent is valid and the agreement binding, the Government would be liable for the entire amount of the royalty involved, or \$57,933.63. If, on the other hand, the patent is not valid or the agreement not binding, the Government would not be liable for any part of the royalty payments. Babcock and Wilcox Tube Company apparently was not without doubt on either of these points. Its letter dated April 13, 1948, to the Bureau of Federal Supply--evidently written in response to the demand of the Bureau for the refund of royalty payments--is, in part, as follows:

"We, on our part, have never paid this royalty ^{(the royalty} under the four contracts here involved/ to Gasoline Products Company pending some decision on the validity of this patent. Since, to the best of our knowledge, there has been no legal decision which would clarify the validity of this patent, we believe it would be in order at this time to make refund to you of the entire Dixon patent royalty we have collected from you against Lend-Lease contracts."

Furthermore, it is understood that Gasoline Products Company has failed to take action against numerous infringements of the Dixon patent; and, when taken together with its willingness to compromise a claim for over \$15,000 less than its full amount, such fact is indicative of hesitancy on the part of Gasoline Products Company to test the validity of the patent involved.

Inasmuch as it is not established that the Dixon patent is

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applicable to the supplies furnished under the contracts, the contractor cannot be said to be legally entitled to any part of the royalty payments provided for in the contracts. It follows that there is no legal authority for the execution of a compromise agreement which would permit the contractor to retain the royalty payments of \$42,499.66 heretofore made under the contracts but that such amount should be recovered from the contractor, leaving Gasoline Products Company to such legal remedy as it might elect to employ. If Babcock and Wilcox Tube Company should refuse to repay the amount of royalty held by them, the matter should be referred to this Office for the institution of proceedings looking to collection thereof.

Sincerely yours,

(Signed) Lindsay C. Warren

Comptroller General
of the United States.